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FILED
AUG 7 1945
CHARLES ELMORE CROPLEY
CLERK

Supreme Court of the United States

OCTOBER TERM, 1944

No. 302

ALLEN J. PATCH,
Petitioner and Appellee Below,

vs.

SOLAR CORPORATION,
Respondent and Appellant Below.

PETITION FOR A WRIT OF CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT, AND BRIEF IN SUPPORT THEREOF

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INDEX

PAGE

Petition for Writ of Certiorari 1
Agreement, Appendix 28
Appendix 28
Jurisdiction 5
Limitation Order, W. P. B. Appendix 33
Reason Relied Upon for Issuance of Writ 7
Summary and Statement of Case 1
Questions Presented 6
Prayer for Writ 8

Brief in Support of Petition 10

Argument 14

1. That Circuit Court has decided a question of general importance, etc. 14

2. That Circuit Court has decided a question of Federal Law, not settled by this Court, etc 17

3. That Circuit Court has decided a question of Local Law probably in conflict with local decisions 22

Conclusions 27

Opinions of the Court Below 10
Specification of Errors 11
Summary or Argument 12
Statement of the Case 1, 10

TABLE OF CASES CITED

Aetna Life Insurance Co. v. Haworth, 300 U. S. 227 6
Altvater v. Freeman, 319 U. S. 359 6
Allanwilde Transport Co. v. Vacuum Oil Co., 248 U. S. 377 ..... 8, 13, 18, 21, 26
Berg v. Erickson (C. C. A. 8), 234 Fed. 817 ..... 7, 8, 12, 13, 14, 17
Carr v. Whitebreast Fuel Co., 88 Iowa 136, 55 N. W. 205 ..... 23, 24
Columbus Railway & Power Company v. Columbus, 249 U. S. 399 ..... 8, 13, 18, 27
District Township of Union v. Smith, 39 Iowa 9, 18 Am. Rep. 39 ..... 8, 13, 22, 24
Edward Maurer Co., Inc., v. Tubeless Tire Co. (D. C. Ohio), 272 Fed. 990, aff'd (C. C. A. 6) 285 Fed. 713 ..... 7, 8, 12, 13, 14, 17, 27
Erie Railroad Company v. Thompkins, 304 U. S. 64 22
Fibrosa Spolka Akeyjna v. Fairbairn L. C. Barbour, Ltd., 167 L. T. N. S. 101, 144 A. L. R. 1298 ..... 7, 12, 14, 21
Forsyth v. Hammond, 166 U. S. 506, 514 15
Fritzler v. Robinson, 70 Iowa 500, 31 N. W. 61 23
Geipel v. Smith (1872), L. R., 7 Q. B. 404 21
General Pictures Company v. Electric Company, 304 U. S. 175 16

Hess Brothers v. Great Northern Pail Company, 175 Wis. 465, 185 N. W. 542 26
International Harvester Company v. McAdam, 142 Wis. 114, 124 N. W. 1042, 26 L. R. A. (N.S.) 774 23
Klaxon Company v. Stentor Electric Manufacturing Co., 313 U. S. 487 23
Lauth v. McKenna Steel Working Co., 160 Wis. 309, 151 N. W. 797 ..... 23, 26
Luchenbach S. S. Co. v. W. R. Grace Co., 267 Fed. 676 27
Mahaska County State Bank v. Brown, 159 Iowa 577, 121 N. W 459 ..... 8, 13, 22, 24
Maryland Casualty Co. v. United States, 251 U. S. 342 19
Metropolitan Water Board v. Dick Kerr, etc. (1917), 2 K. B. 1, 1918 A. C. 119 ..... 7, 12, 14, 21
Mutual Benefit Life Insurance Co. v. Henrietta Hillyard, 37 N. J. L. 444 25
New York Life Ins. Co. v. Stratham, 93 U. S. 24 ..... 8, 13, 18, 25
Ohio Citizens Trust Company v. Airway Elec. App. Corp. (D. C. Ohio), 56 Fed. S. 1010 ..... 8, 12, 13, 14, 15, 17, 22, 27
Otto v. Orange Screen Co. (D.C.D. N.J.), 57 Fed. S. 134 ..... 7, 8, 12, 13, 14, 16, 17, 22, 27
Re Badische Co. (1921), 2 Ch. 231 21
Rhea v. Adder Machine Co., 189 Iowa 1085, 178 N. W. 359 ..... 8, 13
Salinger v. General Exchange Ins. Corp., 217 Iowa 560, 250 N. W. 13 ..... 8, 13, 22, 24
Sola Electric Company v. Jefferson Elec. Co., 317 U. S. 173 19
Texas v. Hogarth Shipping Co., 256 U. S. 619 ..... 7, 8, 12, 13, 14, 20
The Kronprinzessin Cecile, 244 U. S. 12 ..... 7, 12, 14, 21, 27
The Styria v. Morgan, 186 U. S. 1 ..... 7, 8, 12, 13, 14, 18, 21
Thompson v. Thompson, 315 Ill. 521, 146 N. E. 45 ..... 7, 12, 14
United States v. Eaton, 144 U. S. 677 18
Wernli v. Collins, 87 Iowa 548, 54 N. W. 365 ..... 8, 13, 22

TABLE OF STATUTES AND TEXT BOOKS CITED

Judicial Code, Section 274 (d) (28 U. S. C. A. 400) 1, 5
Judicial Code, Section 240 (a) (28 U. S. C. A. 347) 6
Public Act 671 (54 Stat. 676), as amended by Act of May 21, 1941 (55 Stat. 236), 50 U. S. C. A. (Appendix), Sec. 1151 ..... 18, 19
Second War Powers Act (March 27, 1942), 56 Stat. 177, Public No. 507; 50 U. S. C. A. (Appendix), Sec. 631-645 a 19
Williston, Contracts, Vol. VI, Sec. 1957 26
Williston, Contracts, Vol. VI, Sec. 1958 26

Supreme Court of the United States

OCTOBER TERM, 1944

No. .....

ALLEN J. PATCH,
Petitioner and Appellee Below,

vs.

SOLAR CORPORATION,
Respondent and Appellant Below.

PETITION OF ALLEN J. PATCH FOR A WRIT OF CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

TO THE HONORABLE HARLAN FISK STONE, CHIEF JUSTICE OF THE UNITED STATES, AND THE ASSOCIATE JUSTICES OF THE SUPREME COURT OF THE UNITED STATES:

Your Petitioner respectfully shows:

I.

SUMMARY AND SHORT STATEMENT OF THE MATTER INVOLVED

This action was brought by the Petitioner, Allen J. Patch, by filing his Bill of Complaint on July 31, 1943, in the District Court of the United States for the Eastern District of Wisconsin, under Section 274 (d) of the Judicial Code, as amended (28 U. S. C. A., Section 400),

to secure a declaratory judgment that the exclusive clause of a general license given respondent's assignor for the manufacture and sale of a device patented by Petitioner, had been terminated pursuant to the terms of the license agreement because of failure to pay the minimum royalty required thereby, and to procure an injunction restraining the defendant from thereafter claiming to be the holder of such an exclusive license, and to restrain it from selling under such exclusive license (R. p. 2).

The District Court (Judge F. Ryan Duffy) held that the Plaintiff was entitled to the relief prayed for and entered its injunction and restraining order as prayed for (R. p. 44).

The Circuit Court of Appeals for the Seventh Circuit (Opinion by Judge Minton), reversed the District Court and directed it to enter judgment sustaining the motion of the Defendant for judgment on its counterclaim and to decree that the exclusive feature of the license agreement was in the defendant, subject only to the continued payment of royalties after restrictions on the manufacture of laundry equipment were lifted sufficiently to permit the renewal of its manufacture, and to enjoin the Petitioner from selling, leasing, conveying or offering to sell any right or interest to others under the patent which might in any way conflict with the enjoyment by the Defendant of its exclusive license (R. p. 62).

The Petitioner, an inventor, and a resident and citizen of the State of Wisconsin, holds United States Patent No. 1,964,440, issued June 26, 1934, which patent covers what is known as a "link" power transmission, which is used in the manufacture of washing machines (R. pp. 5, 41). On June 19, 1937, he entered into a written agree-

ment[1] with Beam Manufacturing Company (hereafter for brevity termed "Beam"), granting Beam a general license to manufacture and sell machines employing this device generally throughout the world, and in the same agreement granted Beam an "exclusive license" for manufacture and sale of said transmissions "to chain stores, mail order and rubber tire companies" (R. p. 5).[1]

The action here involves only this exclusive license created by the agreement. The agreement[1] provides, among other things, that should Beam not pay during any calendar year commencing on or after January 1, 1941, a total royalty of $5,000.00 to him, then the Petitioner-Licensor, would have the right to cancel the exclusive feature of the license (R. p. 6).

The agreement is to extend for the life of the patent, unless terminated. The licensee, Beam, and its assignee, Solar Corporation, has the right to terminate the exclusive feature of the license on a sixty days' written notice (R. p. 6). The license agreement was executed in the State of Iowa by both parties on June 19, 1937. At that time the Petitioner was engaged with Barlow and Seelig Company in certain litigation in the State of Wisconsin, involving title to the patent. In that litigation, Beam advanced some $3,000.00 as expenses for the purpose of conducting such litigation (R. p. 31). This was later repaid out of royalty checks due to the licensor (R. p. 31), and the litigation terminated in licensor's favor by the Supreme Court of the State of Wisconsin.[2]

In 1938 Beam began to manufacture and sell the machines using the patented device, generally to the trade (R. p. 31), and continued to do so until May 15,

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[1]See Appendix, p. 28, for copy of license agreement.

[2]Barlow & Seelig Mfg. Co. v. Patch, 232 Wis. 220, 286 N. W. 577.

1942, which was the effective date of Limitation Order L, issued by the War Production Board[3] (R. p. 34). This order bears the erroneous date March 12, 1943, but was actually issued March 12, 1942 (R. p. 32). This order prohibited after the 15th day of May, 1942, the manufacture of washing machines in the United States, with certain exceptions, not herein material (R. p. 43). Between January 1, 1942, and May 15, 1942, Beam manufactured 19,510 machines, according to its own account, and it paid Petitioner $3,902.40 as royalty at the rate of 20c per machine as called for by the exclusive feature of the license (R. p. 43). Nothing was paid after that date until October, 1944, when certain machines, which are not considered here material, were made for the Marine Corps of the United States Navy by Solar Corporation, the respondent, as these machines were manufactured after the entry of the judgment in the District Court of the Eastern District of Wisconsin.

Because of its failure to pay the full sum of $5,000.00 called for by the exclusive feature of the license agreement during the calendar year 1942, Petitioner on March 29, 1943, served upon Beam, under the terms of the license agreement, and in compliance with it, a notice of intention to terminate the exclusive feature of the license agreement upon the ground and for the reason that Beam had not paid in the calendar year 1942 the sum of $5,000.00 called for by the agreement (R. p. 43). Beam wrote Petitioner stating that it refused to accept the notice of cancellation and that any attempt by Petitioner to grant any other license would be regarded as a breach of the contract, and that such licensee would be regarded by it as an infringer of Beam's exclusive rights. It did not pay or offer to pay the difference in the mini-

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[3]See Appendix, page 34.

mum royalty of $5,000.00 due under the contract for the calendar year 1942, and the sum of $3,902.40 paid up to May 15, 1942 (R. pp. 19, 20). During the year 1943, prior to the commencement of this action, Beam assigned all its rights in the license agreement to the respondent, Solar Corporation, which became entitled to all the rights and subject to all the obligations of the agreement (R. pp. 2, 3, 10, 42).

On June 21, 1943, Petitioner entered into an agreement with the Zenith Machine Company, a corporation in Duluth, Minnesota, granting it a non-exclusive license to make and sell the "link" transmissions under the patent (R. p. 26).

The decision of the District Court of the Eastern District of Wisconsin, in favor of Petitioner, was filed on August 14, 1944, and the Court made and filed its Findings of Fact on September 18, 1944 (R. p. 41). Notice of Appeal was filed by the Respondent on December 18, 1944, appealing the case to the Circuit Court of Appeals for the Seventh Circuit, and its opinion and judgment was filed on May 29, 1945 (R. pp. 56 and 62). The Petitioner then made a Petition for Rehearing and this Petition was denied by the Circuit Court of Appeals on June 22, 1945 (R. pp. 62, 63).

II.

JURISDICTION

(1) This is a suit under the Federal Declaratory Judgments Act, Judicial Code, Section 247 (d), as amended (28 U. S. C. A., § 400).

(2) The date of the decree to be reviewed is May 29, 1945 (R. p. 62). The Petition for Rehearing was timely filed and denied on June 22, 1945 (R. p. 63).

(3) The statutory provision which is believed to sustain the jurisdiction of this Court is Section 240 (a) of the Judicial Code, as amended by the Act of February 13, 1925 (28 U. S. C. A., § 347).

(4) This is an action brought under the Federal Declaratory Judgments Act by a citizen of Wisconsin, against a corporation domiciled in the State of Delaware, and to determine their respective rights under a license for the use of a patent. The District Court of the Eastern District of Wisconsin granted Petitioner the relief prayed for (R. p. 44). The Circuit Court of Appeals, for the Seventh Circuit, reversed and ordered judgment for the Respondent as prayed for by it (R. p. 62).

(5) The cases believed to sustain said jurisdiction are as follows:

Altvater v. Freeman, 319 U. S. 359;

Aetna Life Insurance Company v. Haworth, 300 U. S. 227.

III.

QUESTIONS PRESENTED

(1) Whether the order of the War Production Board limiting the manufacture and sale of laundry equipment, using a patented device, brought about a temporary frustration of the exclusive license.

(2) Whether the order of the War Production Board limiting the manufacture and sale of washing machines, brought about a temporary failure of consideration for the Respondent's promise to pay to Petitioner $5,000.00 minimum royalty annually.

(3) Whether the effect of the application of the doctrine of failure of consideration or commercial frustration is to terminate the agreement or merely suspend it

during the period the limitations of the War Production Board order are in effect.

(4) Whether the minimum yearly consideration, payable by the Respondent to the Petitioner, for the retention of the exclusive feature of the license was divisible so as to permit Respondent to retain such exclusive license, without payment of the full consideration therefor.

IV.

REASONS RELIED UPON FOR THE ALLOWANCE OF THE WRIT

(1) That the Circuit Court of Appeals, for the Seventh Circuit, has decided a question of general importance contrary to the decisions of this Court, and to the weight of authority in holding that the application of the doctrine of frustration suspended the performance of the contract and cancelled the right of licensor to terminate the exclusive license upon failure of licensee to pay the minimum royalty, and in holding that the suspension created only a temporary impossibility of performance contrary to the decisions of this Court, in the cases of: The Kronprinzessin Cecile, 244 U. S. 12; Texas v. Hogarth Shipping Company, 256 U. S. 619; The Styria v. Morgan, 186 U. S. 1, and to the general rule applied in other jurisdictions, Thompson v. Thompson, 315 Illinois 521, 146 N. E. 45; Metropolitan Water Board v. Dick Kerr, etc., 2 K. B. 1, affirmed 1918, A. C. 119.

Fibrosa Spolka Akeyjna v. Fairbairn L. C. Barbour, Limited, 167 L. T. N. S. 101, 144 A. L. R. 1298 (H. of L.); Berg v. Erickson (C. C. A. 8), 234 Fed. 617; Edward Maurer Company, Inc., v. Tubeless Tire Company (D. C. Ohio), 272 Fed. 990, affirmed (C. C. A. 6), 285 Fed. 713; Otto v. Orange Screen Co. (D.C.D. N.J.), 57 Fed. S. 134;

Ohio Citizens Trust Company v. Airway Electric Appliance Corporation (D. C. Ohio), 56 Fed. S. 1010.

(2) The Circuit Court of Appeals, for the Seventh Circuit, in holding that the exclusive license in the case at bar was suspended and the right of cancellation frustrated by the Limitation Order of the War Production Board has decided an important question of Federal Law, which has not been but should be settled by this Court because a different principle has been applied in the cases of Berg v. Erickson (C. C. A. 8th), 234 Fed. 817; Maurer v. Tubeless Tire Company (C. C. A. 4th), 285 Fed. 713; Otto v. Orange Screen Co. (D.C.D. N.J.), 57 Fed. S. 134; Ohio Citizens Trust Company v. Airway Electric Appliance Corporation (D. C. Ohio), 56 Fed. S. 1010, and in a way probably in conflict with the principles announced in the decisions of this Court in the cases of Allanwilde Transport Co. v. Vacuum Oil Co., 248 U. S. 377; The Styria v. Morgan, 186 U. S. 1; New York Life Ins. Co. v. Statham, 93 U. S. 24; Texas Co. v. Hogarth Shipping Co., 256 U. S. 619; Columbus Railway & Power Company v. Columbus, 249 U. S. 399.

(3) That the Circuit Court of Appeals for the Seventh Circuit, has decided an important question of local law in a way probably in conflict with the applicable local decisions. Wernli v. Collins, 87 Iowa 548, 54 N. W. 365; District Township of Union v. Smith, 39 Iowa 9, 18 Am. Rep. 39; Mahaska County State Bank v. Brown, 159 Iowa 577, 121 N. W. 459; Rhea v. Adder Machine Co., 189 Iowa 1085, 178 N. W. 359; Salinger v. General Exchange Ins. Corp., 217 Iowa 560, 250 N. W. 13.

Wherefore, Your Petitioner prays that the writ of Certiorari issue under the Seal of this Court, directed to the United States Circuit Court of Appeals, for the Seventh Circuit, demanding said Court to certify and

send to this Court on a date to be designated, the full and complete transcript of the record, and of the proceedings of said Circuit Court of Appeals, for the Seventh Circuit, had in the case, numbered and entitled on its docket No. 8754, Allen J. Patch, Plaintiff-Appellee, vs. Solar Corporation, Defendant-Appellant, to the end that this cause may be reviewed and determined by this Court, as provided by the Statutes of the United States, and that the judgment herein of said Circuit Court of Appeals of the Seventh Circuit be reversed by this Court, and for such other and further relief as may be proper.

Dated July 27th, 1945.

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Supreme Court of the United States

OCTOBER TERM, 1944

No. .....

ALLEN J. PATCH,
Petitioner and Appellee Below,

vs.

SOLAR CORPORATION,
Respondent and Appellant Below.

BRIEF IN SUPPORT OF PETITION

I.

OPINIONS OF THE COURT BELOW

The opinion of the District Court of the Eastern District of Wisconsin has not yet been reported, and is printed at R. p. 38. Findings of Fact, Conclusions of Law appear at R. p. 41. The decree entered in the District Court is printed at R. p. 44. The opinion of the Circuit Court of Appeals for the Seventh Circuit appears at R. p. 56 and has not been reported. The order denying the Petition for Rehearing made by the Circuit Court of Appeals appears R. p. 63. No opinion was filed at that time.

II.

STATEMENT OF THE CASE

This case has been stated in the preceding Petition under paragraph I which is hereby adopted and made a part of this brief.

III.

SPECIFICATION OF ERRORS

The errors which Petitioner will urge if the Writ of Certiorari is allowed, are that the Circuit Court of Appeals for the Seventh Circuit erred:

1. In holding that the Limitation Order of the War Production Board limiting the manufacture of laundry equipment, in legal effect suspended the exclusive license and the right of Plaintiff to the minimum royalties provided by that agreement, while the Order remained in effect.

2. In holding that the limitation order of the War Production Board limiting the manufacture of laundry equipment frustrated the part of the agreement of the parties providing for cancellation of the exclusive license upon failure to pay a certain minimum sum during a calendar year.

3. In holding that the Plaintiff was not entitled to judgment as decreed by the District Court of the United States for the Eastern District of Wisconsin.

4. In holding that the Respondent is entitled to a judgment and decree that it is the owner of an exclusive right to make and sell Petitioner's patent device to chain store, mail order and rubber tire companies, as prayed for in its Answer and Counterclaim.

5. In holding that the service of the notice of cancellation for failure to pay the minimum stipulated royalty upon the nonpayment thereof by the Respondent amounted to a forfeiture, which should be relieved against by permitting the Respondent to retain the exclusive license without payment of the agreed consideration.

6. In reversing the judgment of the District Court of the Eastern District of Wisconsin.

IV.

SUMMARY OF THE ARGUMENT

1. That the Circuit Court of Appeals for the Seventh Circuit, has decided a question of general importance contrary to the decisions of this Court and to the weight of authority, in holding that the application of the doctrine of frustration suspended the performance of the contract and cancelled the right of licensor to terminate the exclusive license upon failure of licensee to pay the minimum royalty, and in holding that the suspension created only a temporary impossibility of performance contrary to the decisions of this Court in the cases of: The Kronprinzessin Cecile, 244 U. S. 12; Texas v. Hogarth Shipping Company, 256 U. S. 619; The Styria v. Morgan, 186 U. S. 1, and to the general rule applied in other jurisdictions, Thompson v. Thompson, 315 Illinois 521, 146 N. E. 45; Metropolitan Water Board v. Dick Kerr, etc., 2 K. B. 1, affirmed 1918, A. C. 119; Fibrosa Spolka Akeyjna v. Fairbairn L. C. Barbour, Limited, 167 L. T. N. S. 101, 144 A. L. R. 1298 (H. of L.); Berg v. Erickson (C. C. A. 8), 234 Fed. 817; Edward Maurer Company, Inc., v. Tubeless Tire Company (D. C. Ohio), 272 Fed. 990, affirmed (C. C. A. 6), 285 Fed. 713; Otto v. Orange Screen Co. (D.C.D. N.J.), 57 Fed. S. 134; Ohio Citizens Trust Company v. Airway Electric Appliance Corporation (D. C. Ohio), 56 Fed. S. 1010.

2. The Circuit Court of Appeals, for the Seventh Circuit, in holding that the exclusive license in the case at bar was suspended and the right of cancellation frustrated by the Limitation Order of the War Production

Board has decided an important question of Federal Law, which has not been, but should be settled by this Court, because a different principle has been applied in the cases of Berg v. Erickson (C. C. A. 8th), 234 Fed. 817; Maurer v. Tubeless Tire Company (C. C. A. 4th), 285 Fed. 713; Otto v. Orange Screen Co. (D.C.D. N.J.), 57 Fed. S. 134; Ohio Citizens Trust Company v. Airway Electric Appliance Corporation (D. C. Ohio), 56 Fed. S. 1010, and in a way probably in conflict with the principles announced in the decisions of this Court, in the cases of Allanwilde Transport Co. v. Vacuum Oil Co., 248 U. S. 377; The Styria v. Morgan, 186 U. S. 1; New York Life Ins. Co. v. Stratham, 93 U. S. 24; Texas Co. v. Hogarth Shipping Co., 256 U. S. 619; Columbus Railway & Power Company v. Columbus, 249 U. S. 399.

3. That the Circuit Court of Appeals for the Seventh Circuit, has decided an important question of local law in a way probably in conflict with the applicable local decisions. Wernli v. Collins, 87 Iowa 548, 54 N. W. 365; District Township of Union v. Smith, 39 Iowa 9, 18 Am. Rep. 39; Mahaska County State Bank v. Brown, 159 Iowa 577, 121 N. W. 459; Rhea v. Adder Machine Co., 189 Iowa 1085, 178 N. W. 359; Salinger v. General Exchange Ins. Corp., 217 Iowa 560, 250 N. W. 13.

V.

ARGUMENT

1. THAT THE CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT, HAS DECIDED A QUESTION OF GENERAL IMPORTANCE CONTRARY TO THE DECISIONS OF THIS COURT AND TO THE WEIGHT OF AUTHORITY, IN HOLDING THAT THE APPLICATION OF THE DOCTRINE OF FRUSTRATION SUSPENDED THE PERFORMANCE OF THE CONTRACT AND CANCELLED THE RIGHT OF LICENSOR TO TERMINATE THE EXCLUSIVE LICENSE UPON FAILURE OF LICENSEE TO PAY THE MINIMUM ROYALTY, AND IN HOLDING THAT THE SUSPENSION CREATED ONLY A TEMPORARY IMPOSSIBILITY OF PERFORMANCE CONTRARY TO THE DECISIONS OF THIS COURT, IN THE CASES OF: The Kronprinzessin Cecile, 244 U. S. 12; Texas v. Hogarth Shipping Company, 256 U. S. 619; The Styria v. Morgan, 186 U. S. 1, and to the general rule applied in other jurisdictions, Thompson v. Thompson, 315 Illinois 521, 146 N. E. 45, Metropolitan Water Board v. Dick Kerr, etc., 2 K. B. 1, affirmed 1918, A. C. 119; Fibrosa Spolka Akeyjna v. Fairbairn L. C. Barbour, Limited, 167 L. T. N. S. 101-144, A. L. R. 1298 (H. of L.); Berg v. Erickson (C. C. A. 8), 234 Fed. 817; Edward Maurer Company, Inc., v. Tubeless Tire Company (D. C. Ohio), 272 Fed. 990, affirmed (C. C. A. 6), 285 Fed. 713; Otto v. Orange Screen Co. (D.C.D. N.J.), 57 Fed. 134, Ohio Citizens Trust Company v. Airway Electric Appliance Corporation (D. C. Ohio), 56 Fed. 1010.

Exceptional circumstances, peculiarly affecting the public and the state of general law are sometimes deemed sufficient to warrant the granting of a Writ of Certiorari

to examine the soundness of a decision of the Circuit Court of Appeals, even in the absence of a conflicting decision on the same matter in another Circuit. Such circumstances are not restricted to those arising from facts of any particular character; the reason is that it is in the interest of the law and the need of "securing harmony of decision and the appropriate settlement of questions of general importance, so that the system of Federal justice may be appropriately administered," to use the language then Chief Justice Hughes employed in an address.[4] The power of this Court is "co-extensive with all the possibilities," Forsyth v. Hammond, 166 U. S. 506, 514.

In the case at bar no question of the title to, or validity of, the patent is at issue. The real problem is the question of the effect of the emergency orders of a Federal agency issued pursuant to an Act of Congress, upon a private contract.

The Case at bar presents a situation remarkably free of other issues, and squarely poses the question as to the effects of the orders of the War Production Board under the emergency Acts of Congress upon a contract. It is apparent that the rule adopted by the Circuit Court of Appeals of the Seventh Circuit would be held to apply to all contracts irrespective of their nature. An examination of the authority cited by that Court in support of its position indicates that by its decision, the Circuit Court of Appeals has adopted a general rule of law effecting all types of contracts in a field marked by confusion and contrary to the ruling in two other Federal Courts. District Judge Kloeb of Ohio states in his decision in Ohio Citizens Trust Company v. Airway Electric Appliance Corporation, 56 Fed. 1010, at page 1017:

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[4]See 48 Harvard Law Review 262.

> "The doctrine of the dissolution of a contract by reason of the frustration of its commercial object arose in England, and was adopted to some extent in this country. The authorities, however, appear to be in a state of hopeless confusion both here and in England in the application of the rule."

And in the case the District Court refused to apply the rule adopted by the Circuit Court of Appeals to a situation which is practically identical to that in the case at bar.

The same point was before the Court in the case of Otto v. Orange Screen Company decided in the District Court of New Jersey, and that Court decided as did the New Jersey Court. Otto v. Orange Screen Company, 57 Fed. S. 134, 140. The application of the doctrine of frustration has been urged in a great variety of cases noted in 137 A. L. R. 1199 and subsequent notes. The extent of commerce is widespread, of which the subject matter is the use of a patented article, and license agreements concerning their use affect a great portion of the common articles of trade and commerce, as was observed by Justice Black in his dissent in the case of General Pictures Company v. Electric Company, 304 U. S. 175, 186. Since such license agreements are very common and numerous, the question of the extension of the doctrine of frustration to them, altering their terms and their effect, as is done by the Circuit Court of Appeals in its decision below, presents a question of the greatest importance in the commercial world, and one peculiarly the subject of litigation in Federal Courts because of the nature of the matter involved.

And not only are license agreements altered, by the decision below, but the whole field of contract law is affected because there are a multitude of agreements, which have in some manner, been affected by the impact

of war and the necessary governmental regulation thereby caused. The importance of this litigation from a public viewpoint and its general effect has been admitted by the Respondent in its Brief filed in the District Court below. In this Brief it states:

> "It seems inevitable, however, that there will be much similar litigation in the not distant future. For that reason the final decision in this action may well have far-reaching influence."

We urge, therefore, that the problem presented is one of general importance in the field of law and of concern to the commercial interests of the country as a whole and to the bar generally, and that these conditions and the necessity of a final determination of the application of the principles announced by the Circuit Court of Appeals in its decision below earnestly press—with convincing cogency it is believed—for the granting of the Writ in the case at bar.

2. THE CIRCUIT COURT OF APPEALS, FOR THE SEVENTH CIRCUIT, IN HOLDING THAT THE EXCLUSIVE LICENSE IN THE CASE AT BAR WAS SUSPENDED AND THE RIGHT OF CANCELLATION FRUSTRATED BY THE LIMITATION ORDER OF THE WAR PRODUCTION BOARD HAS DECIDED AN IMPORTANT QUESTION OF FEDERAL LAW, WHICH HAS NOT BEEN BUT SHOULD BE SETTLED BY THIS COURT BECAUSE A DIFFERENT PRINCIPLE HAS BEEN APPLIED IN THE CASES OF: Berg v. Erickson (C. C. A. 8th), 234 Fed. 817; Maurer v. Tubeless Tire Company (C. C. A. 4th), 285 Fed. 713; Otto v. Orange Screen Co. (D.C.D. N.J.), 57 Fed. S. 134; Ohio Citizens Trust Company v. Airway Electric Appliance Corporation (D. C. Ohio), 56 Fed. S. 1010, and in

a way probably it conflicts with the principles announced in the decisions of this Court in the cases of Allanwilde Transport Co. v. Vacuum Oil Co., 248 U. S. 377; The Styria v. Morgan, 186 U. S. 1; New York Life Ins. Co. v. Stratham, 93 U. S. 24; Texas Co. v. Hogarth Shipping Co., 256 U. S. 619; Columbus Railway & Power Company v. Columbus, 249 U. S. 399.

The authority of the War Production Board to issue the limitation order regulating the manufacture of laundry equipment by imposing preferences and limitations upon the procurement of materials, has its basis in the Act of Congress of June 28, 1940 (Public Act 671, 54 Stat. 676), as amended by the Act of May 21, 1914 (Chapter 157, 55 Stat. 236), 50 U. S. C. A. Appendix, Section 1151, et seq., and in the Executive Orders of the President issued subsequent thereto, delegating the authority so vested in him to that Board.

Pursuant to such authority the War Production Board has issued limitation orders affecting almost the entire field of materials employed in the construction of goods, war and civilian, including automobiles, trucks, radiators, refrigerators, office furniture and equipment, vacuum cleaners, tractors, farm machinery, sewing machines, and many others, to mention just a few of the great field covered by these orders.[5]

Because many machines employ a patented device, the use of which is secured by means of a license, there is presented in the case at bar a problem, the solution of which has far-reaching effects. The regulations and orders issued by W. P. B. and other Federal Agencies naturally are designed to have and do have effect throughout the entire United States, and have the force of a federal law or statute, United States v. Eaton, 144

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[5]See W. P. B., "Products and Priorities." May, 1945.

U. S. 677, Maryland Casualty Company v. United States, 251 U. S. 342, 349. The situation presented in the case at bar is one which arises in the area of "judicial decision within which the policy of the law is so dominated by the sweep of Federal Statutes, that legal relations which they affect must be deemed governed by the Federal Law having its source in those Statutes, rather than by local law." Sola Electric Company v. Jefferson Electric Company, 317 U. S. 173.

The source of the Federal power in the case at bar is Chapter 157, 55 Stat. 236, approved May 31, 1941, 50 U. S. Code App., Sec. 1152, which amended Section 2 (A) of the Act approved June 28, 1940, Chapter 440, 54 Stat. 676. The 1940 Act authorized the establishment of priorities in deliveries upon contract with the Secretary of the Navy during the National Emergency declared by the President. The 1941 Act broadened the powers and provided that "whenever the President is satisfied that the fulfillment of requirements for the defense of the United States will result in a shortage in the supply of any material * * * for defense or for private account or for export, the President may allocate such material * * *." And further provided:

> "The President may exercise any power, authority or discretion conferred on him by this section through such Department, agency or officer of the government as he may direct, and in conformity with any rules and regulations which he may prescribe."

The Act of 1940 was amended on March 27, 1942, in the Second War Powers Act (56 Stat. 177) to cover shortages of "Any facilities for defense," as well as "material," and the powers of the President to investigate shortages were broadened and defined in detail.

On August 28, 1941, by executive order the President authorized the Office of Production Management to perform the functions of the allocations of material; and later, by executive order transferred these functions from the Office of Production Management to the War Production Board.

Certainly, the impact of the order of the War Production Board limiting the manufacture of laundry equipment, or any other product limited by its orders, should have the same effect upon a license agreement between the parties to that agreement, whether the agreement is made in one State or the other, or is performed in one State or the other. The practical question for solution is not the status or meaning of the terms of the particular license agreement under the local law, but of the effect of the Federal Regulation upon the terms of the agreement, by implication or otherwise. If the effect of the limitation order upon the license agreement in this case was to impose by implication "a condition excusing both parties from performance," and to suspend the operation of the cancellation clause, as was held by the Circuit Court of Appeals, then all such agreements and all types of contracts, wherever made and wherever performed in the United States, whose performance was interfered with by a similar governmental order or regulation, must of necessity have a similar clause ingrafted into them by the operation of Federal Law. These facts, we respectfully urge, present a Federal question, of general importance.

In Texas Co. v. Hogarth Shipping Company, 256 U. S. 619, this Court held that a shipping contract was dissolved in its entirety, by the act of a government in sequestering a vessel, and that both parties were excused from further performance of the contract. The

Circuit Court of Appeals in its decision below cites from that case and states that it illustrates the rule applicable to the case at bar, but in its decision the cancellation clause in the contract was frustrated and that performance by defendant was suspended. The principle announced in the Hogarth case finds support in the cases of Allanwilde Transport Co. v. Vacuum Oil Co., 249 U. S. 377, and The Kronprinzessin Cecile, 244 U. S. 12.

The Circuit Court of Appeals holds that this extension of the contract, or suspension, is the result of an implied condition in the contract. To the contrary, this Court has cited with approval the doctrine of Geipel v. Smith (1872), L. R. 7 Q. B. 404, to the effect that a state of war interfering with a shipping contract under orders issued must be presumed to be likely to continue so long as to destroy and defeat a commercial venture, in The Styria v. Morgan, 186 U. S. 117.

The doctrine considered applicable by the Court below had its origin in England in the so-called Coronation Cases, but in England, orders similar to such as are here involved are held to end the contract and not to merely suspend it. Metropolitan Water Board v. Dick Kerr & Co., 1917 2 K. B. 1, 1918 A. C. 119.

The rule approved in England is that a state of war must be presumed to be likely to continue so long and to disturb the commerce of merchants so as to defeat and destroy the objects of a commercial venture, Fibrosa Spolka Akeyjna v. Fairbairn L. S. Barbour, Ltd. (H. of L.), 167 L. T. N. S. 101, 144, A. L. R. 1298.

The English rule holds that the implied term must not be inconsistent with an express term of the contract itself, Re Badische Company, 1921 2 Ch. 231. With this authority the District Courts of Ohio and New Jersey agree, and to hold contrary to the Circuit Court of Ap-

peals in its decision below. Otto v. Orange, supra, and Ohio Citizens Trust Company v. Airways Company, supra.

With this diversity of opinion upon a question of federal law, it would be of public benefit, of assistance to the commercial world, and to the bar of the country as a whole, if a final decision on the merits of the question could be had from this Court.

III.

THAT THE CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT HAS DECIDED AN IMPORTANT QUESTION OF LOCAL LAW IN A WAY PROBABLY IN CONFLICT WITH APPLICABLE LOCAL DECISIONS. Wernli v. Collins, 87 Iowa 548, 54 N. W. 365; District Township of Union v. Smith, 39 Iowa 9, 18 Am. Rep. 39; Mahaska County State Bank v. Brown, 159 Iowa 577, 585, 121 N. W. 459, 462; Salinger v. General Exchange Ins. Corp., 217 Iowa 560, 250 N. W. 13.

The license agreement in the case at bar was executed in the State of Iowa and at that time the Beam Company manufactured the machines in which the patented device was used in that State (R. p. 30). Thereafter, Beam merged with Solar Corporation and that company intends to engage in the manufacture of the machines probably at the plant in Iowa (R. p. 30), when the ban on production is lifted and materials are again available.

Petitioner performed the contract by granting the license in Iowa (R. pp. 42, 5). Should this Court be of the opinion that the question in this case is one to which the rule of Erie Railroad Company v. Thompkins, 304 U. S. 64, applies, then the local law governing the question is the law which would be applied under the doctrine of the conflict of law rules by the Wisconsin Court, Klaxon

Company v. Stentor Electric Manufacturing Company, 313 U. S. 487, 496, and it was the duty of the Circuit Court to determine the applicable law, not what it ought to be.

Under the Wisconsin decisions, the usual rule of conflict of laws is enforced—that is, the law of a place of making the contract governs as to its validity and interpretation, and it will be enforced in the form unless it is contrary to the public policy of the forum. International Harvester Company v. McAdam, 142 Wis. 114, 124 N. W. 1042, 26 L. R. A. (N.S.) 774, 20 Anno. Cases 614. An agreement to pay a royalty for the use of a patent by license agreement is enforced in Wisconsin, Lauth v. McKenna Steel Working Company, 160 Wis. 309, 151 N. W. 797.

Consequently, whether the law of the forum is applied, or that of Iowa, the result should be the same.

The Circuit Court of Appeals cites two Iowa cases in support of its conclusion in the case at bar, Fritzler v. Robinson, 70 Iowa 500, 31 N. W. 61, and Carr v. Whitebreast Fuel Co., 88 Iowa 136, 55 N. W. 205. We respectfully submit that neither of these cases is authority for the propositions announced by the Circuit Court.

Fritzler v. Robinson, supra, involved a lease of coal mining lands, the defense in a suit to recover a minimum royalty was that by mutual mistake of fact there was no coal to be mined in the land. The Iowa Court held that the evidence was not sufficient to sustain the claim that a condition for non-payment was intended to be inserted in the lease in the event no coal was found, but held that because there was in fact no coal at all in the land there was a total failure of consideration and there was therefore no contract. Here the District Court found as a fact that the plaintiff had fully performed (R. p. 42).

Could there be here a total failure of consideration making the contract *nudum pactum* from its very inception?

In Carr v. Whitebreast Fuel Co., supra, the facts are somewhat different, since in that there was not an entire lack of coal to be mined, but the amount was insufficient. The basis of the decision is not frustration, but depends on the construction of the meaning of the terms of the lease involved. Construction is not in the present case, the basis of the decision of the Circuit Court of Appeals below, as is evident from a reading of the opinion.

The rule of law in Iowa on the doctrine of impossibility of performance is the one generally followed. It is clearly announced in District Township of Union v. Smith, 39 Iowa 9, 18 Am. Rep. 39:

> "When one binds himself by his solemn agreement to do an act he is held liable for its nonperformance, though it is rendered impossible by events over which he had no control. If performance is rendered impossible by the destruction of the subject matter of the contract or by death of the person upon whose life performance depends and the like, the obligor will be discharged, but the law holds that events against which parties could have provided in their agreement, shall never be alleged as an excuse for the nonperformance of obligations into which they have entered."

This language is approved in the case of Salinger v. General Exchange Ins. Corp., 217 Iowa 560, 250 N. W. 13.

The doctrine of impossibility of performance is recognized by the Iowa Court in Mahaska County Savings Bank v. Brown, 159 Iowa 577, 585, 121 N. W. 459, 462, where the Court said:

> "The parties contracted on the basis that the assets of the estate would continue in the hands of the assignee and necessarily there was to be implied therefrom the condition that if these were certainly

> removed therefrom without the fault of either party as by the institution of bankruptcy proceedings, performance would be excused. This was not a condition against which the exercise of ordinary prudence the parties could be expected to have provided. Ordinarily a contingency which reasonably can be anticipated must be provided for by the terms of the contract, else the impossibility of performance resulting therefrom will not excuse either party from carrying out the contract."

From these decisions by the Iowa Court, it is apparent that the ordinary common law rules on impossibility of performance are applied there. No case is found in which that Court has held that this doctrine has the effect of suspending the obligation of a contract to pay a stipulated license fee and the right to cancel upon nonperformance.

The Circuit Court below cites the case of Mutual Benefit Life Insurance Company v. Henrietta Hillyard, 37 N. J. L. 444, to sustain its position that the contract is suspended. That case involved an insurance policy, the suit on which arose shortly after the Civil War. The New Jersey Court held that the war or rebellion made the transmission of money between citizens of the North and the South illegal, because of the state of war, and that upon the end of the hostilities the insured would have the right to reinstate the policy by payment of the premium due plus interest thereon. The Circuit Court below has misapplied the rule of that case, since in the case at bar the order of the Federal Government did not prevent the payment of money and it was a legal act for the licensee to pay. Further, the contract in the case at bar is not between subjects of belligerent nations. The rule of the Hillyard case is not followed in this Court, New York Life Insurance Company v. Stratham, 93 U. S. 24, decided three years later.

The Circuit Court below also cites as authority Hess Bros. v. Great Northern Pail Co., 175 Wis. 465, 468, 185 N. W. 542. The language referred to is *obiter dicta,* and the decision itself does not in any way conflict with the general rule applicable to a case of the indefinite suspension of the possibility of performance of a commercial contract.

The rule applicable in Wisconsin appears in Lauth v. McKenna Steel Working Co., 116 Wis. 309, 151 N. W. 797, where the Wisconsin Court said:

> "The Plaintiff (licensor) is thereby (by the license granted) deprived of his use of his patent and the defendant has the right to use the device covered by them or keep them off the market. It is a right which the defendant acquired to use or not to use at its pleasure for which it is paying and not for the use of the particular device."

The Court below also cites and relies on 6 Williston, Contracts, Section 1957, p. 5490, where that author deals with "temporary impossibility." In the next section of the same text, that is, 1958, the author treats of "Impossibility of uncertain duration" and refers to the case of Allanwilde Transport Co. v. Vacuum Oil Co., 248 U. S. 377, where this Court said, p. 386:

> "* * * and it is further urged that such embargo was at most but a temporary impediment, and the cargo should have been retained until the impediment was removed, or transported in a vessel not subject to it. We cannot concur in either contention. The duration was of indefinite extent. Necessarily, the embargo would be continued as long as the cause of its imposition—that is, the submarine menace—and that, as far as could be inferred, would be for the duration of the war, of which there could be no estimate or reliable speculation. The condition was therefore, so far permanent as naturally and justifiably to determine business judgment and ac-

tion depending upon it. The Kronprinzessin Cecile, 244 U. S. 12."

The general rule as applied in Federal Courts appears to be that governmental action because of war will not be held to frustrate a contract. Luchenback S. S. Co. v. W. R. Grace & Co. (C. C. A. 4), 267 Fed. 676; Maurer Co. v. Tubeless Tire Company, 272 Fed. 990; Columbus Railway & Power Company v. Columbus, 249 U. S. 399; Otto v. Orange Screen Company, 57 Fed. S. 134; Ohio Citizens Trust Company v. Airways Co., 56 Fed. S. 1010.

We submit that whether the matter be treated as one of the effect of a federal rule upon the rights of parties to a contract or as one concerning the applicability of the law of the place of making the contract, the decision below is against the overwhelming weight of authority.

CONCLUSION

Because of its importance and the general applicability of the rule of law announced, in the field of contract law, this case is one calling for the exercise by this Court of its supervisory powers by granting a Writ of Certiorari and thereafter reviewing and reversing said decision.

Dated July 27th, 1945.

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THOMAS M. McCABE,
ARTHUR M. CLURE,
Of Counsel,
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Duluth, Minnesota.

MEMORANDUM OF AGREEMENT

This Agreement, made and entered into this 19th day of June, 1937, by and between Beam Manufacturing Company, an Iowa corporation, of Webster City, Iowa, hereinafter referred to as "Licensee," and Allen J. Patch, of South Bend, Indiana, and Ripon, Wisconsin, hereinafter referred to as "Licensor," Witnesseth;

Whereas, Licensor is the owner of United States patent No. 1,964,440, subject to a shop right in the Barlow & Seelig Company of Ripon, Wisconsin, and of certain ideas for washing machine transmissions, and Licensee desires to avail itself of said patent and ideas and to acquire certain rights thereunder: and whereas this agreement is a culmination of the option agreement of March 4, 1937, signed by Licensor and the extension thereof by Licensee's letter of April 30, 1937, said option agreement being merged herein without limiting the scope or application of this agreement;

Now, Therefore, the parties hereto, each in consideration of the covenants and agreements hereinafter contained on the part of the other, agree as follows:

1. The transmissions covered by this agreement are the so-called "link" transmission covered by said patent No. 1,964,440 and as used by said Barlow & Seelig Company, and any other modified forms of same or improvements thereon, as developed by Licensor, whether covered by patents or otherwise.

2. Subject to the terms and conditions hereof, Licensor grants to Licensee a non-exclusive license to make or to have made, use and sell said transmissions in and throughout the United States of America, its territories and possessions, for sale or use anywhere in the world: and, subject to any shop rights of said Barlow & Seelig Company, Licensor grants to Licensee the sole and exclusive right and license for the manufacture and sale of said transmissions to the chain store, mail order and rubber tire companies. To carry out the intent of this exclusive feature of this license, Licensor agrees to grant no future license during the continuance of this exclusive feature of the present license, except to a

manufacturer or manufacturers selling only to independent jobbers or dealers: and the Licensor further covenants that he will require any such future Licensee to agree that it will not sell devices embodying said transmissions to chain store, mail order or rubber tire companies, in so far as his property rights therein permit him to so require. Any dispute as to whether a given sale does nor does not come within the above classification shall be submitted to an arbitration committee of three members, one to be appointed by the Licensee, one by the Licensor, and the two so selected to choose the third member. If the decision of the arbitration committee be that such future licensee be selling to a chain store, mail order or rubber tire company, then Licensor agrees to institute suit immediately against such future licensee, if the patent laws or the terms of such future license so permit.

3. Unless and until the exclusive feature of this license be terminated as hereinafter provided, Licensee agrees to pay Licensor a royalty of twenty cents (20¢) for each transmission made and sold under this agreement. A transmission is understood to consist of the three links next adjacent the oscillator shaft of a washing machine for connecting the oscillator shaft with the pitman of a rotary member. On and after July 1, 1939, by sixty (60) days written notice to Licensor, Licensee shall have the right to surrender the exclusive feature of this license to the chain store, mail order and rubber tire companies, in which event the license shall revert to a non-exclusive basis and the royalty for any said transmissions sold after the expiration of said sixty days shall be fifteen cents (15¢) per transmission, or not higher than the royalty due to Licensor from any other than non-exclusive licensee other than Barlow & Seelig Company.

4. If, during the calendar year 1939, Licensee do not pay Licensor a total royalty of at least Twenty Five Hundred Dollars ($2500.00), then Licensor, upon sixty (60) days notice in writing to Licensee, shall have the right to cancel the exclusive feature of this license with

respect to the chain store, mail order and rubber tire companies; and similarly on and after January 1, 1941, Licensor may terminate the exclusive feature of this license if Licensee shall not have paid Licensor a total royalty, in any calendar year immediately preceding the giving of such notice, of at least Five Thousand Dollars ($5,000.00) but Licensee shall not be thereby relieved from liability to pay the royalty accrued and unpaid at the twenty-cent (20¢) rate prior to the giving of said notice.

5. Licensor covenants that he is the owner of said patent No. 1,964,440 issued in his name on June 26, 1934, and in the event of any litigation in regard to the ownership or validity of said patent or of any other patent or patent applications for Licensee's modifications of said link transmission, Licensor agrees to hold Licensee harmless from judgment damages and defense expenses so far as he is able. In the event of any such suit against Licensee, any and all royalties due to Licensor may be withheld by Licensee pending the outcome of such litigation and if such litigation be concluded in favor of Licensor, said royalties shall be immediately reinstated, and the amount of royalties withheld shall immediately be turned over to Licensor less whatever reasonable and proper expense the Licensee may have been put to in connection with such suit.

6. Licensee shall keep accurate books of account of its manufacture and sale of said transmissions, and shall make the Licensor true statements thereof, duly attested before a notary public, not less frequently than after the end of each and every quarter and within fifteen (15) days thereafter, it being understood that the quarters end on the 31st day of March, the 30th day of June and September, and the 31st day of December, of each and every year, and shall mail to Licensor a check payable at face value in lawful money of the United States, for the royalty due as shown by said statement. Said statements and checks shall be mailed to Licensor at his last known address. Licensor shall be entitled to have an audit made of the books of Licensee upon which said

statements are based, during usual business hours and at reasonable intervals. In preparing such statements, Licensee shall be entitled to take credit for royalties previously paid on returned merchandise and merchandise wherefor Licensee has been unable to secure payment because of bankruptcy of the purchaser.

7. It shall be the duty of Licensor primarily to prosecute and to pay the expenses of prosecuting any and all infringers of any patent to which this agreement relates. If during the life of this agreement Licensee shall call upon Licensor, while the said exclusive feature hereof be still in effect, to prosecute any such infringer and Licensor shall fail for ninety (90) days so to do, Licensee may proceed against such infringer in the name of the Licensor, and shall have the right to deduct the necessary and reasonable expenses of such litigation from the royalties accruing to Licensor hereunder. Any recovery over and above the bona fide expenses of such suit shall be divided one-half (½) to Licensor and one-half (½) to Licensee.

8. Licensee agrees to work with Licensor to provide transmissions for other licensees as much as its facilities within its plant, or without, will permit, and so long as in its judgment it will not be jeopardizing its own deliveries or facilities.

9. Licensor agrees to render reasonable assistance to Licensee in preparing equipment to produce said transmissions, either in its own plant or other plants.

10. Licensee agrees that it will mark said transmissions with notice of patent or patents covered by this agreement by showing the patent number thereon, or other marking in accordance with United States patent statutes, and that it will also mark said products with a notice "Patent Applied For" or "Patent Pending," where proper so to do.

11. Unless sooner terminated in accordance with the provisions hereof, or by mutual consent, this agreement shall remain in force for the life of the patents referred

to in Paragraph 1 hereof, unless said transmissions be declared unpatentable, or ownership of said patent structure shall be held to be in others than Licensor by a court of competent jurisdiction from which no appeal has or can be taken.

12. Upon any material breach of this agreement by Licensee, which it is understood shall be a failure to make true statements, or royalty payments thereon, in accordance with paragraph numbered 6 hereof, Licensor on sixty (60) days notice in writing to Licensee shall be entitled to terminate the license herein granted, if during said period the breach complained of be not remedied, but Licensee shall not thereby be relieved from obligation to pay the royalties due hereunder up to the date of said notice and during the period thereof.

13. This agreement shall be assignable by Licensee to a successor to the entire business and good will of Licensee but shall not be assignable or transferable otherwise by the Licensee, or by operation of law, except on written approval of the Licensor.

14. Except as herein provided, this agreement shall inure to the benefit of and be binding upon the successor or assign of Licensee and the personal representatives, heirs and assigns of Licensor.

In Witness Whereof, the parties hereto have affixed their names and seals as of the day and year first above written.

Beam Manufacturing Company
George P. Castner
By G. P. Castner
Vice-President and General Manager
Allen J. Patch
Allen J. Patch

State of Iowa,

ss.

County of Hamilton.

On this 19th day of June, 1937, before me personally came George P. Castner, to me known, who, being, by me duly sworn, did depose and say that he is the Vice-

President and General Manager of Beam Manufacturing Company, the corporation described in and which executed the foregoing instrument: that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation and that he signed his name thereto by like order.

Elizabeth Kemplay,
Notary Public.

(Notarial Seal)

State of Iowa,

ss.

County of Hamilton.

I, Elizabeth Kemplay, a notary public, within and for the county and state aforesaid, do hereby certify that Allen J. Patch of South Bend, Indiana, and Ripon, Wisconsin, personally known to me and also known to me to be the person whose name is subscribed to the foregoing instrument appeared before me this day in person, and, being by me duly sworn, acknowledged his signing, sealing and delivering the said instrument as his free and voluntary act and deed, for the consideration and purposes therein set forth.

In witness whereof I have set my hand and official seal hereto this 19th day of June, 1937.

Elizabeth Kemplay,
Notary Public.

(Notarial Seal)

LIMITATION ORDER OF WAR PRODUCTION BOARD

War Production Board

Part 922—Laundry Equipment

(Limitation Order L-6-c, as Amended March 12, 1943)

In accordance with the provisions of § 992.1, **General Lmitation Order L-6,** which the following order supplements, **It is hereby ordered,** That:

§ 992.4 Supplementary General Limitation Order L-6-c.

(a) **Prohibition of production of domestic laundry equipment.** (1) Effective April 16, 1942, no Class A or Class B manufacturer shall produce any domestic laundry equipment except upon specific authorization of the Director General for Operations. Effective May 16, 1942, no Class C or Class D manufacturer shall produce any domestic laundry equipment except upon specific authorization of the Director General for Operations.

(2) The Director General for Operations may from time to time specifically authorize one or more manufacturers of any class or combination of classes to produce specified quantities of domestic laundry equipment.

(b) **Restrictions until dates of prohibition of production.** (1) During the period beginning March 16, 1942, and ending April 15, 1942, inclusive:

(i) No Class A manufacturer shall produce more domestic laundry equipment than the greater of the following two limits:

(a) 11,700 units of such equipment, or

(b) 90% of the monthly average of his factory sales of such equipment for the twelve months ending June 30, 1941.

(ii) No Class B manufacturer shall produce more domestic laundry equipment than the greater of the following two limits:

(a) 5,625 units of such equipment, or

(b) 97½% of the monthly average of his factory sales of such equipment for the twelve months ending June 30, 1941.

(2) During the period beginning March 16, 1942, and ending May 15, 1942:

(i) No Class C manufacturer shall produce more domestic laundry equipment than the greater of the following two limits:

(a) 3,420 units of such equipment, or

(b) Two times 112½% of the monthly average of factory sales of such equipment for the 12 months ending June 30, 1941.

(ii) No Class D manufacturer shall produce more than two times 142½% of the monthly average of his factory sales of such equipment for the twelve months ending June 30, 1941.

(c) **Replacement parts.** Nothing in this order shall be construed to prohibit or limit the production of replacement parts for domestic laundry equipment.

(d) **Restrictions on inventory.** (1) Until otherwise ordered by the Director General for Operations no manufacturer shall sell, deliver, or otherwise transfer any part of the inventory of raw materials, semi-processed parts or finished parts which he holds for use in the production of domestic laundry equipment to any other person, or to any other department, division, or section of his concern not engaged in the production of domestic laundry equipment, except on the following conditions:

(i) Raw materials, semi-processed parts, and finished parts may be sold, delivered or otherwise transferred to other manufacturers of domestic laundry equipment for their use in the production of such equipment pursuant to the provisions of paragraph (b);

(ii) Raw materials, semi-processed parts, and finished parts may be sold, delivered or otherwise transferred in connection with the manufacture and sale of repair and maintenance parts for domestic laundry equipment;

(iii) Raw materials, semi-processed parts, and finished parts may be sold, delivered, or otherwise transferred to any person (including any other department, division, or section of a manufacturer's concern not engaged in the production of domestic laundry equipment) who is able to supply a preference rating of A-9 or higher;

(iv) Raw materials, semi-processed parts, and finished parts may be sold, delivered, or otherwise trans-

ferred to the Defense Supplies Corporation or other corporation, affiliate, or other form of enterprise under the control of the Reconstruction Finance Corporation: **Provided however,** That nothing in this paragraph (d) shall be construed to permit any manufacturer to sell, deliver, or otherwise transfer, or any person to purchase, receive delivery of, or otherwise acquire any raw materials, semi-processed parts, or finished parts in contravention of the terms of any L or M order including amendments or supplements thereto, or other regulation of the War Production Board, now effective or effective prior to the date of any such sale, delivery, or other transfer.

(2) Each manufacturer shall file with the War Production Board on or before April 1, 1942, an estimate of the inventory of raw materials, by classes of materials, semi-processed parts, and finished parts, which will remain in his hands pursuant to this paragraph after he has completed his production of domestic laundry equipment pursuant to paragraph (b).

(e) **No interference with ordnance production.** No manufacturer shall divert materials, labor, or equipment from the production of war material to enable him to produce his production quota under paragraph (b) hereof.

(f) **Prohibition of acquisition of materials.** No manufacturer of domestic laundry equipment shall purchase, receive delivery of, or otherwise acquire any raw materials, semi-processed parts, or finished parts intended for the production of domestic laundry equipment in excess of quantities required to fulfill the production quotas specified in paragraph (b) hereof; no person shall sell, deliver, or otherwise transfer any such raw materials, semi-processed parts, or finished parts except as so permitted: **Provided however,** That deliveries of raw materials, semi-processad parts, or finished parts actually in transit to the manufacturer on the date of issue of this order may be delivered to the manufacturer.

(g) **Existing contracts.** Fulfillment of contracts in violation of this order is prohibited regardless of whether such order is entered into before or after the effective date of this order. No person shall be held liable for damages or penalties for any default under any contract or order, which shall result directly or indirectly from his compliance with the terms of this order.

(h) **Appeal.** Any manufacturer who considers that compliance with this order would work an exceptional or unreasonable hardship upon him, or would disrupt or impair a program of conversion to war production may appeal for relief to the Director General for Operations by means of a letter addressed to the Director General for Operations, Ref.: L-6-c, setting forth in such letter all facts pertinent to the appeal. The Director General for Operations may thereupon take such action as he deems appropriate.

Issued this 12th day of March, 1943.

Curtis E. Calder,
Director General for Operations.

GPO—War Board 4352—p. 1.

(4)

FILED
SEP 4 1945
CHARLES ELMORE CROPL
CLER

Supreme Court of the United States

OCTOBER TERM, 1944

No. 302

ALLAN J. PATCH, Petitioner,

vs.

SOLAR CORPORATION.

On Petition for Writ of Certiorari to the
United States Circuit Court of Appeals
For the Seventh Circuit.

BRIEF IN OPPOSITION

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INDEX

PAGE

Opinions below 1

Jurisdiction 2

Questions presented 2

Statement 2

Argument 4

1. No federal question is involved 4

2. The decision is not in conflict with applicable local decisions 5

3. There is no special and important reason for review 7

CASES CITED

Alfred Marks Realty Co. v. Hotel Hermitage Co., 170 App. Div. 484, 156 N. Y. S. 179 (1915) 8

Ask Mr. Foster Travel Service, Inc., v. Tauck Tours, Inc., 43 N. Y. S. (2d) 674 (1943) 8

Berg v. Erickson (C. C. A. 8), 234 Fed. 817 10

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Cold Metal Process Co. v. United Engineering and Foundry Co., 107 F. (2d) 27, 32 (C. C. A. 3, 1939) 9

Columbus Railway & Power Co. v. Columbus, 249 U. S. 399 10

Critcher v. Linker, 169 Fed. 653 (C. C., W. D., Wis., 1909) 9

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Erdreich v. Zimmerman, 190 App. Div. 443, 179 N. Y. Supp. 829 (1920) 9

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Hess Brothers v. Great Northern Pail Co., 175 Wis. 465, 185 N. W. 542 (1921) 9

Krell v. Henry (1903), 2 K. B. 740 8

LaCumbre Golf and Country Club v. Santa Barbara Hotel Co., 205 Cal. 422, 271 Pac. 476 (1928) 8

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McCoy v. New York Life Ins. Co., 219 Iowa 514, 258 N. W. 320 (1935) 9

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Otto v. Orange Screen Co. (D. C., N. J.), 57 F. Supp. 134 11

Parrish v. Stratton Cripple Creek Mining and Development Co., 116 F. (2d) 207 (C. C. A. 10, 1940) 8

Slezak v. International Ticket Scale Corporation, 21 F. Supp. 688 (D. C., Del., 1937) 9
Societe Anonyme des Sucreries de Saint Jean v. Bull Insular Line, 276 Fed. 783 (C. C. A. 1, 1921) 9
Sola Electric Company v. Jefferson Electric Co., 317 U. S. 173 5
Standard Dental Mfg. Co. v. National Tooth Co., 95 Fed. 291 (E. D., Pa., 1899) 9
Standard Stoker Co., Inc., v. Brewster, 277 Fed. 783 (C. C. A. 7, 1921) 9
Thomson v. Thomson, 315 Ill. 521 10
Virginia Iron, Coal & Coke Co. v. Graham, 124 Va. 692, 98 S. E. 659 (1919) 8

TEXTS CITED

Restatement of the Law of Contracts, Sec. 288 7
Williston on Contracts (Rev. ed., 1938):
Section 838 9
Section 1931 8
Section 1954 8
Section 1957 9
Section 1958 9

Supreme Court of the United States

OCTOBER TERM, 1944

No. .....

ALLAN J. PATCH, Petitioner,

vs.

SOLAR CORPORATION.

On Petition for Writ of Certiorari to the
United States Circuit Court of Appeals
For the Seventh Circuit.

BRIEF IN OPPOSITION

OPINIONS BELOW

The opinion of the trial court (R. 38-40) is not yet reported. The opinion of the Circuit Court of Appeals (R. 56-61) is reported in 149 F. (2d) 558.

JURISDICTION

The judgment of the Circuit Court of Appeals was entered May 29, 1945 (R. 62) and petition for rehearing was denied June 22, 1945 (R. 63). The petition for certiorari was filed August 7, 1945, and notice of the filing served August 16, 1945. Petitioner invokes the jurisdiction of this Court under Section 240 (a) of the Judicial Code, as amended by the Act of February 13, 1925.

QUESTIONS PRESENTED

1. Whether frustration of performance of a contract licensing the use of a patent in the manufacture of washing machines by a governmental order of prohibition excused the licensee from obligation to pay the annual minimum royalty during the period of suspension.

2. Whether the licensee's failure to pay the minimum royalty because of the frustration gave the licensor the right to cancel the contract under a provision permitting cancellation for nonpayment of royalty.

STATEMENT

Petitioner is the owner of United States patent No. 1964440 issued June 26, 1934, covering a "link" transmission used in washing machines (R. 5, 41). On June 19, 1937, he granted to Beam Manufacturing Company an exclusive license for the manufacture and sale of the transmission to chain store, mail order and rubber tire companies (R. 2, 5, 41-42). The contract includes also a non-exclusive license for manufacture and sale to others, but that feature is not involved in this case. The agreement requires the licensee to pay petitioner for the exclusive license a royalty of 20c for each transmission manufactured and sold and a minimum royalty of $2500 for the year 1939 and $5,000 for subsequent years, and gives petitioner the right to terminate the license if the minimum royalty is not paid (R. 6, 8, 42); otherwise the license is to remain in force during the life of the patent (R. 8, 42).

The licensee advanced petitioner $3,000 to pay the cost of litigation involving the patent, spent at least $10,000 in developing other designs for use in the event petitioner should lose in that litigation, and, on the assumption it would enjoy the license granted to it, in addition

to agreeing to pay the minimum royalty it spent more than $100,000, over and above the cost of advertising and of building machines, in developing and promoting petitioner's invention as an exclusive feature (R. 31-32).

In 1938 the licensee began the manufacture of washing machines embodying the patented transmission and continued until May 15, 1942. During that period it paid petitioner in royalties $30,688.80, or $17,256.32 in excess of the minimum royalties. It paid petitioner (at the rate of 20c per unit) $3,902.40 for machines manufactured from January 1 to May 15, 1942 (R. 31). From and after that date the manufacture of washing machines was prohibited by a general limitation order issued by the War Production Board in March of 1942 (R. 13, 17, 32, 34-37, 43). At the time of trial respondent had orders for 67,000 machines and was prepared to increase its production by 50% above the 50,000 machines manufactured in 1941 (R. 33).

On March 29, 1943, petitioner served notice of cancellation of the license for failure to pay the full minimum royalty for 1942 (R. 3, 19-20, 43). The licensee advised petitioner that it refused to consider the notice an effective cancellation and that any attempt to license another would be regarded as a breach of contract (R. 3, 20-21). On June 21, 1943, petitioner made an agreement purporting to grant a license to Zenith Machine Company (R. 4, 26-30). Later the licensee assigned its rights under the license to respondent, Solar Corporation. In July of 1943 petitioner brought this action for a judgment declaring the license terminated and enjoining respondent from manufacturing and selling under the exclusive license (R. 2-4). Respondent answered denying that failure to pay the minimum royalty constituted a breach, denying that petitioner had performed his part

of the contract, and counterclaiming for a judgment declaring that it retained the license and enjoining petitioner from granting any license that would interfere with it (R. 10-15). Both parties moved for summary judgment on affidavits (R. 18-38). The trial court made findings of fact and conclusions of law (R. 41-44) and ordered judgment for petitioner which was entered September 28, 1944 (R. 44-45). On appeal to the Circuit Court of Appeals for the Seventh Circuit (R. 45) the judgment was reversed (R. 56-61).

ARGUMENT

There is no conflict with the decision of another Circuit Court of Appeals. It is claimed that an important question of local law has been decided in a way probably in conflict with applicable local decisions; at the same time it is claimed that the question is one of federal law which has not been but should be settled by this Court and also that a federal question has been decided in a way probably in conflict with the applicable decisions of this Court. No federal question is involved; the decision is not in conflict with local decisions; and the writ will issue only if the Court finds some other "special and important reason" for review.

1. No Federal Question Is Involved.

The complaint alleges that the action is one for a declaratory judgment under Section 274d of the Judicial Code as amended. The jurisdiction of the federal court is invoked by the allegations that the amount in controversy exceeds $3,000 and that the parties are citizens of different states (R. 2), as provided by Section 24 of the Code as amended. No allegation raises a federal question. In his brief below (p. 50) petitioner said that "fun-

damentally the problem is one of construction of the contract and a determination of what the parties intended."

The claim that a federal question is involved apparently rests on the defensive allegations and proof that the contract was frustrated by the operation of a War Production Board order prohibiting the manufacture of washing machines. Neither the validity nor the interpretation of the order is involved. Neither party contends that the order did not effectively prohibit the manufacture of washing machines. If frustration by operation of federal law raises a federal question, frustration by war would raise a question of international law, and frustration by act of God one of divine law. Plainly the only questions involved are the interpretation of the contract and the doing of equity (since the principles of equity are applicable to proceedings to cancel and to enjoin), and those questions remain the same whatever the cause of the frustration. The contention that the rule laid down in the case of Sola Electric Company v. Jefferson Electric Co., 317 U. S. 173, creates a federal question here (Pet. 19) is denied by the holding in that case that:

> "Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforcement of such unlawful agreements" (p. 177).

2. The Decision Is Not in Conflict With Applicable Local Decisions.

In the court below petitioner contended that since the governmental order did not prevent payment of the minimum royalty by the licensee the contract was not

frustrated and that default in making that payment brought the cancellation provision into operation. To meet this contention respondent cited decisions of the Supreme Court of Iowa among many others. Fritzler v. Robinson, 70 Iowa 500, denied recovery of a minimum royalty under a coal mining lease on the ground that contrary to the belief of the parties there was no coal on the land. Carr v. Whitebreast Fuel Company, 88 Iowa 136, denied recovery of royalty under a coal mining lease because it became impracticable to remove coal except at great expense. These cases present examples of, or are at least analogous to, frustration. The Iowa cases cited by petitioner are of a somewhat similar character although they relate more specifically to impossibility of performance than to frustration of the desired object or effect of the contract. This is quite different from saying that the contract is at an end, regardless of the nature of the contract and the character and duration of the frustration. The local decisions recognized the doctrine of frustration and the related rule of failure of consideration, and no local decision is cited or has been found that is in conflict with the decision in the case at bar to the effect that frustration may be temporary, that the liabilities under the contract are suspended for the time, and that the excuse for nonperformance will end when the cause of the frustration is removed.

3. There Is No Special and Important Reason for Review.

Petitioner rests his argument largely on the claim that the decision is against the weight of authority. This Court is not concerned with that unless the question is one of federal law. As has already been pointed out, no question of federal law is involved; and this Court will not correct mistakes and cannot resolve conflicts in decisions resting on local law.

The rule applied by the Court below is thus set forth in the Restatement of the Law of Contracts, Section 288:

> "Where the assumed possibility of a desired object or effect to be attained by either party to a contract forms the basis on which both parties enter into it, and this object or effect is or surely will be frustrated, a promisor who is without fault in causing the frustration, and who is harmed thereby, is discharged from the duty of performing his promise unless a contrary intention appears."

The "assumed possibility of a desired object * * * to be attained" in this case is the uninterrupted right to manufacture washing machines. This right formed the basis on which both parties entered into the agreement, and it has been suspended by governmental order. The object of the contract was thereby frustrated during the life of the order, without fault on the part of respondent. Respondent as promisor has by the order been deprived for the time being of the right to manufacture; hence it was discharged from performing its promise to pay royalties while the order was in effect. The right to cancel the license rests on respondent's default in payment of royalties, but since under the rule respondent was excused from making payment the right to cancel did not arise.

The consequence of frustration is thus set forth in Williston on Contracts, Section 1931:

> "The important question is whether an unanticipated circumstance has made performance of the promise vitally different from what should reasonably have been within the contemplation of both parties when they entered into the contract. If so, the risk should not fairly be thrown upon the promisor."

Performance here is vitally different from what was contemplated in that the licensee could not exercise its right under the license, and petitioner, though he could grant a license in form, could not vest in the licensee the enjoyment of the patent, and indeed could not have used it himself.

Even though literal performance of a contract is still possible, a party not at fault will be excused from performing if the object contemplated by the contract cannot be attained.

Krell v. Henry (1903), 2 K. B. 740;

Alfred Marks Realty Co. v. Hotel Hermitage Co., 170 App. Div. 484, 156 N. Y. S. 179;

Ask Mr. Foster Travel Service, Inc., v. Tauck Tours, Inc., 43 N. Y. S. (2d) 674;

Brown v. Oshiro, 58 Cal. App. (2d) 190;

Parrish v. Stratton Cripple Creek Mining and Development Co. (C. C. A. 10), 116 F. (2d) 207;

LaCumbre Golf and Country Club v. Santa Barbara Hotel Co., 205 Cal. 422;

Virginia Iron, Coal & Coke Co. v. Graham, 124 Va. 692;

Bottlers' Seal Co. v. Rainey, 225 N. Y. 369;

Williston on Contracts, Section 1954.

Frustration or failure of consideration may operate to suspend rather than terminate the contract and excuse performance during the period of suspension.

Erdreich v. Zimmerman, 190 App. Div. 443, 179 N. Y. S. 829;

Societe, etc., v. Bull Insular Line, 276 Fed. 783;

Hess Brothers v. Great Northern Pail Co., 175 Wis. 465;

General American Tank Car Corporation v. Goree (C. C. A. 4), 296 Fed. 32, 37;

Williston on Contracts, Sections 838, 1957, 1958.

This would be especially true where considerable money has been spent in reliance on the contract.

See Cold Metal Process Co. v. United Engineering and Foundry Co. (C. C. A. 3), 107 F. (2d) 27, 32.

Equity will not permit a forfeiture under such circumstances.

See Foster Hose Supporter Co. v. Taylor (C. C. A. 2), 184 Fed. 71;

Slezak v. International Ticket Scale Corporation (D. C. Del.), 21 F. Supp. 688.

Forfeitures are not favored.

See McCoy v. New York Life Ins. Co., 219 Iowa 514;

Denecke v. Henry F. Miller & Son, 142 Iowa 486;

Marshall v. Vicksburg, 15 Wall. 146;

Standard Dental Mfg. Co. v. National Tooth Co. (E. D., Pa.), 95 Fed. 291;

Critcher v. Linker (C. C., W. D., Wis.), 169 Fed. 653;

Standard Stoker Co., Inc., v. Brewster (C. C. A. 7), 277 Fed. 783.

The cases relied on by petitioner fall into several classes. Some involve leases where the leased property was useful for purposes other than the frustrated purpose contemplated by the parties. Some involve shipping charters where it would be impracticable to require performance at a later date; and in most of the charters considered the impossibility of the performance was specifically provided against. Some involve construction contracts where possible rise in costs of labor and materials over a period of time would make performance unduly burdensome. Some involve commercial enterprises where postponement of performance would be impracticable and unfair from a business point of view. Substantially all of them, including such cases as New York Life Ins. Co. v. Stratham, 93 U. S. 24, involve contracts in which time was of the essence and where suspension would operate to the disadvantage of one party and the advantage of the other. Others, such as Columbus Railway & Power Co. v. Columbus, 249 U. S. 399, and Ohio Citizens Trust Co. v. Air-Way Electric Appliance Corp. (D. C., Ohio), 56 F. Supp. 1010, merely held that performance of a contract is not excused because it becomes unprofitable. Thomson v. Thomson, 315 Ill. 521, held only that the rules of the Chicago Board of Trade were part of the contract and compliance with the rules did not constitute a breach. All but one or two involve contracts calling for a single act and not for a continuing performance by both parties over a long period of years as is the case here.

The case of Berg v. Erickson (C. C. A. 8), 234 Fed. 817, held that a drouth did not excuse performance by an agister where drouths were a matter of common knowledge and in contemplation of the parties and were not protected against by the terms of the contract.

If decisions of district courts affecting situations somewhat similar to this need be considered (petitioner cites only two of the many he says have arisen or will arise), it is pointed out that in Otto v. Orange Screen Co. (D. C., N. J.), 57 F. Supp. 134, in which the *licensee* sought cancellation, it does not clearly appear whether only aluminum, the use of which was prohibited, and no other metal could be used in the manufacture of the patented screen. Furthermore the court, apparently without considering the numerous pertinent authorities dealing with frustration, undertook to follow two state decisions involving real estate leases that had no application.

In Ohio Citizens Trust Co. v. Air-Way Electric Appliance Corp., supra, where also it was the licensee who sought relief on the basis of its own default and because of alleged frustration, the court considered the doctrine of frustration, but held that since manufacture had not been prohibited but only restricted the contract was not frustrated. It appeared that the unit royalty earned under the restricted production was substantially greater than the minimum royalty called for by the contract.

None of the cases relied on by the petitioner have application to the situation here presented, where the licensor is unable to perform his part of the contract by putting the licensee in a position to enjoy the use of the patent; where the patent is of no value for the time being because no one, not even the patentee himself, can use it; where neither party is at fault and one suffers no more than does the other; where time is not of the essence; where the license has many years still to run; where no change has occurred such as would occur in commercial ventures, construction contracts and cases of that character, but the parties will be in exactly the

same relative situations as they were when the suspension began, and where the party whose rights are sought to be forfeited has expended large sums of money in reliance on the continuance of the contract and is able, ready and willing to continue its performance to the substantial benefit of the licensor.

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